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8 **UNITED STATES BANKRUPTCY COURT**  
9 **CENTRAL DISTRICT OF CALIFORNIA**  
10 **SANTA ANA DIVISION**

11 In re:

12 THE LITIGATION PRACTICE GROUP, P.C.,  
13 Debtor.

Chapter 11

Case No. 8:23-bk-10571-SC

**LIMITED OBJECTION TO MOTION  
TO APPROVE COMPROMISE  
BETWEEN TRUSTEE AND AZZURE  
CAPITAL LLC**

**Hearing Date and Time**

Date: September 13, 2023

Time: 1:30 p.m.

Location: Courtroom 5C and *Via ZoomGov*

OHP-CDR, LP (“OHP-CDR”) and PurchaseCo80, LLC (“PurchaseCo”) file this limited objection (“Limited Objection”) to the *Motion to Approve Compromise Between Trustee and Azzure Capital LLC* [ECF 392] (“Motion”).<sup>1</sup>

## **I. INTRODUCTION**

OHP-CDR is a secured creditor and PurchaseCo owns a substantial number of the Debtor’s receivables. OHP-CDR and PurchaseCo do not generally object to the compromise (“Azzure Compromise”) between the chapter 11 trustee (“Trustee”) and Azzure Capital LLC (“Azzure”) set forth in the Motion. They object to the Motion only if and to the extent that the Trustee seeks to pay Azzure before resolution of OHP-CDR’s and PurchaseCo’s secured claims and interests or otherwise requests a determination of ownership of certain receivables.

## **II. BRIEF STATEMENT OF RELEVANT FACTS**

### **A. LPG’s Business**

The Litigation Practice Group, P.C. (“LPG” or “Debtor”) is a law firm that prepetition provided consumer debt resolution. Amended Complaint ¶ 50.<sup>2</sup> LPG acquired clients through “marketing affiliates,” and in turn, “p[aid] the marketing affiliates a percentage of fees earned through the debt resolution process.” *Id.* ¶ 55. However, because “LPG and its marketing affiliates receive[d] only incremental payments over a period of time, LPG [and the marketing affiliates] would often sell the future cash flow at a discounted rate” to “factoring companies that b[ought] the receivables on account of these files.” *Id.* ¶¶ 57-58.

### **B. Ownership of the Receivables and the Lien**

OHP-CDR<sup>3</sup> purchased a number of LPG’s and affiliates’ receivables through PurchaseCo. Pursuant to the September 1, 2022 Limited Liability Company Agreement of PurchaseCo80, LLC (“LLC Agreement”),<sup>4</sup> OHP-CDR contributed the “OHP Funding Capital,” Agreement § 3.02, which

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<sup>1</sup> All terms not defined herein have the meaning ascribed to them in the Motion.

<sup>2</sup> “Amended Complaint” refers to the *Amended Complaint* filed by the Trustee on June 15, 2023 in *Marshack v. Diab et al.*, Adv. Pro. No. 8:23-ap-01046-SC, ECF 62.

<sup>3</sup> OHP-CDR was formerly known as OHP-LPG, LP. *See* Claim No. 44, Attachment ¶ 2.

<sup>4</sup> The LLC Agreement is attached to OHP-CDR’s proof of claim. Claim No. 44.

1 was to be used to purchase both “Eligible Receivables,” *id.* § 7.02(e)(i), and “Assigned Eligible  
2 Receivables,” *id.* § 7.02(e)(ii). Included in those receivables were a number (corresponding to about  
3 10,201 files) acquired directly from LPG.

4 In addition, OHP-CDR has a lien on substantially all of the Debtors’ assets. As set forth in  
5 the LLC Agreement, LPG granted OHP-CDR a first priority security interest in all of its personal  
6 property to secure repayment of the “OHP Funding Capital,” and OHP-CDR (then named OHP-  
7 LPG, LP) recorded a UCC-1 financing statement with the California Secretary of State. Ex. A  
8 (Claim No. 44, Attachment ¶ 15). The UCC-1 financing statement was recorded *before* Azzure’s  
9 purported loan to LPG. ECF 392 at 16 (reciting a February 7, 2023 loan from Azzure to LPG). As  
10 of the petition date, LPG owed OHP-CDR at least \$16,538,954, including \$9,538,954 in outstanding  
11 “OHP Funding Capital.” *Id.* ¶ 3.

12 **C. Azzure’s Claim and the Azzure Compromise**

13 On July 24, 2023, Azzure filed a proof of claim, asserting a secured claim of no less than  
14 \$5,000,000, based on a note dated February 7, 2023 (“Azzure Note”). Claim No. 127. The Azzure  
15 Note charged an interest rate of 170%, along with an origination fee of \$50,000. ECF 392 at 26.

16 The Azzure Note also provided for a security interest. Azzure, however, did not file a UCC-  
17 1 financing statement, and therefore, any lien is avoidable pursuant to 11 U.S.C. § 544(a). Instead,  
18 it appears that an entity called BAE Enterprises, Inc. “assigned” its UCC-1 financing statement from  
19 May 28, 2021 (“BAE Financing Statement”) to Azzure. ECF 392 at 96. The BAE Financing  
20 Statement appears to relate to an August 3, 2021 Cash Advance from Cobalt Funding Solutions to  
21 LPG. ECF 392 at 63. It appears that there was litigation between Cobalt Funding Solutions and  
22 LPG, and to resolve that litigation, the financing statement was transferred to BAE Enterprises, Inc.  
23 ECF 392 at 81. However, it does not appear that the underlying debt was transferred to BAE  
24 Enterprises, Inc. BAE Enterprises, Inc., on the same date as the Azzure Note, purported to transfer  
25 the BAE Financing Statement to Azzure. ECF 392 at 96.

26 The Trustee filed the Motion on August 16, 2023. ECF 392. The Motion states that pursuant  
27 to the compromise, Azzure will have an allowed secured claim in the total amount \$3.5 million,  
28 \$1.9 million of which “shall be paid prior to the unsecured claims of all post-petition lenders that

1 received super-administrative priority status,” and \$1.6 million of which shall be an unsecured  
2 claim. Motion at 5. The *Settlement Agreement and Release* (“Azzure Agreement”) further states  
3 that Azzure’s claim “is believed by the parties to be first-in-priority with respect to all of the  
4 Bankruptcy estate’s debts and liabilities.” ECF 392 at 17. The Motion does not state when the  
5 Trustee will pay Azzure the \$1.9 million on account of the purported secured claim.

6 **III. AZZURE SHOULD NOT RECEIVE PAYMENT UNTIL OHP-CDR’S AND**  
7 **PURCHASECO’S SECURED CLAIMS AND INTERESTS ARE RESOLVED**

8 As noted above, OHP-CDR and PurchaseCo do not object to the proposed compromise in  
9 principle. However, the Motion is unclear on two issues.

10 *First*, it does not appear that the Trustee is asking for a finding that Azzure’s purported  
11 secured claim has priority over all other secured claims in this case. But the Azzure Agreement  
12 contains a section that states “is believed by the parties to be first-in-priority with respect to all of  
13 the Bankruptcy estate’s debts and liabilities.” For the reasons discussed above, OHP-CDR believes  
14 that its secured claim has priority over Azzure’s. To the extent that the Trustee seeks such a finding,  
15 it is inappropriate to do so here, because the Trustee only sought approval of a compromise between  
16 himself and Azzure under Federal Rule of Bankruptcy Procedure 9019, and that compromise does  
17 not include all of the other secured creditors in this case. Moreover, any proceeding to determine  
18 the priority or validity of a lien must be brought as an adversary proceeding pursuant to Federal  
19 Rule of Bankruptcy Procedure 7001(2). OHP-CDR reserves all of its rights to assert its first-priority  
20 position.

21 Moreover, as discussed above, PurchaseCo owns a number of LPG’s receivables. The estate  
22 does not own those receivables, and therefore cannot use those receivables to pay Azzure. Like  
23 OHP-CDR’s secured claim, the Motion does not address ownership of the receivables, nor does it  
24 request to use such receivables to pay Azzure. Moreover, to the extent that the Trustee disputes  
25 PurchaseCo’s ownership of the receivables, such dispute must be resolved by adversary proceeding  
26 pursuant to Federal Rule of Bankruptcy Procedure 7001(2). Therefore, to the extent the Trustee  
27 seeks a finding that Azzure has priority over PurchaseCo’s ownership interests, the request should  
28 be denied.

1        *Second*, the Trustee does not state in the Motion *when* he will pay Azzure \$1.9 million on  
2 account of the compromised purported secured claim. OHP-CDR objects to any payment to Azzure  
3 before the earlier of confirmation of a plan or resolution of OHP-CDR's and PurchaseCo's secured  
4 claims and interests. OHP-CDR and PurchaseCo are currently in discussions with the Trustee to  
5 resolve the secured claims and interests. If those discussions do not result in an agreement, OHP-  
6 CDR and PurchaseCo are prepared to initiate an adversary proceeding to finally determine the  
7 validity and priority of the secured claims and interests described herein.

8 **IV. CONCLUSION**

9        For the reasons above, OHP-CDR and PurchaseCo do not object to the Motion, except to  
10 the extent that it proposes to pay Azzure before OHP-CDR's and PurchaseCo's secured claims and  
11 interests are resolved.

12 DATED: August 30, 2023

Respectfully submitted,

14 By /s/ Razmig Y. Izakelian  
Razmig Y. Izakelian

16 *Attorneys for OHP-CDR, LP and PurchaseCo 80,  
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## PROOF OF SERVICE OF DOCUMENT

I am over the age of 18 and not a party to this bankruptcy case or adversary proceeding. My business address is:

865 S. Figueroa Street, 10<sup>th</sup> Floor, Los Angeles, CA 90017

A true and correct copy of the foregoing document entitled (*specify*): LIMITED OBJECTION TO MOTION TO APPROVE COMPROMISE BETWEEN TRUSTEE AND AZZURE CAPITAL LLC

will be served or was served **(a)** on the judge in chambers in the form and manner required by LBR 5005-2(d); and **(b)** in the manner stated below:

**1. TO BE SERVED BY THE COURT VIA NOTICE OF ELECTRONIC FILING (NEF):** Pursuant to controlling General Orders and LBR, the foregoing document will be served by the court via NEF and hyperlink to the document. On (*date*) August 30, 2023, I checked the CM/ECF docket for this bankruptcy case or adversary proceeding and determined that the following persons are on the Electronic Mail Notice List to receive NEF transmission at the email addresses stated below:

☒ Service information continued on attached page

**2. SERVED BY UNITED STATES MAIL:**

On (*date*) \_\_\_\_\_, I served the following persons and/or entities at the last known addresses in this bankruptcy case or adversary proceeding by placing a true and correct copy thereof in a sealed envelope in the United States mail, first class, postage prepaid, and addressed as follows. Listing the judge here constitutes a declaration that mailing to the judge will be completed no later than 24 hours after the document is filed.

☐ Service information continued on attached page

**3. SERVED BY PERSONAL DELIVERY, OVERNIGHT MAIL, FACSIMILE TRANSMISSION OR EMAIL (*state method for each person or entity served*):** Pursuant to F.R.Civ.P. 5 and/or controlling LBR, on (*date*) \_\_\_\_\_, I served the following persons and/or entities by personal delivery, overnight mail service, or (for those who consented in writing to such service method), by facsimile transmission and/or email as follows. Listing the judge here constitutes a declaration that personal delivery on, or overnight mail to, the judge will be completed no later than 24 hours after the document is filed.

☐ Service information continued on attached page

I declare under penalty of perjury under the laws of the United States that the foregoing is true and correct.

8/30/23  
Date

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/s/ Razmig Y. Izakelian  
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